BEFORE THE
Federal Communications Commission
WASHINGTON, DC 20554

In the Matter of	)	
	)	CC Docket No. 98-117
1998 Biennial Regulatory Review — Review of ARMIS Reporting Requirements	)	

COMMENTS OF U S WEST, INC.

U S WEST, Inc. ("U S WEST") hereby submits the following comments in the above-captioned proceeding.[1]

I. INTRODUCTION/SUMMARY

On July 17, 1998, the Commission issued its *ARMIS NPRM* proposing to reduce the reporting requirements of its Automated Reporting Management Information System ("ARMIS").[2] Specifically, the Commission proposes to eliminate the paper filing requirement and to modify the ARMIS 43-04 Access Report by eliminating certain data pertaining to equal access, inside wire, and payphone investment and to adopt conforming modifications to ARMIS 43-01 Report.[3] In addition, the Commission proposes to reduce the reporting requirements related to ARMIS 43-02, 43-03, 495A and 495B Reports, but only for incumbent local exchange carriers ("LECs") with annual operating revenues of less than $7 billion.[4]

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[1] *See 1998 Biennial Regulatory Review — Review of ARMIS Reporting Requirements*, CC Docket No. 98-117, *Notice of Proposed Rulemaking*, FCC 98-147 (rel. July 17, 1998) ("*ARMIS NPRM*").

[2] *Id.* at ¶ 1.

[3] *Id.* at ¶ 4.

[4] *Id.* at ¶ 7.

U S WEST supports the Commission's efforts to streamline and consolidate the ARMIS reports to the greatest extent possible. Limited resources, budget reductions, and the onset of competition require that the LECs and the Commission carefully analyze the ARMIS reports and eliminate or modify those which have become overly burdensome and unnecessary. Indeed, such action is expressly mandated by Section 11 of the Communications Act. Section 11 requires the Commission, in every even-numbered year beginning in 1998, to review its regulations applicable to telecommunications carriers to "determine whether any such regulation is no longer necessary in the public interest as the result of meaningful competition between providers of such service."[5] The Commission is further required to "repeal or modify any regulation it determines to be no longer necessary in the public interest."[6]

U S WEST agrees with the Commission's tentative conclusion to eliminate the paper filing requirement. U S WEST also agrees with the Commission's proposal to reduce the amount of detail to be provided in the ARMIS 43-04 and 43-01 Reports. U S WEST, however, does not support the Commission's tentative decision to limit the proposed modifications to ARMIS 43-02, 43-03, 495A and 495B Reports to mid-size LECs only. The Commission's tentative decision to apply more stringent reporting requirements to large incumbent LECs is unwarranted. Finally, U S WEST urges the Commission to consolidate ARMIS 43-01, 02, and 04 Reports into one report and to adopt a "materiality" standard below which follow-up reconciliation and refiling of ARMIS reports will not be required.

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5 47 U.S.C. § 161(a).

6 *Id.* § 161(b).

II. THE COMMISSION SHOULD ADOPT ELECTRONIC FILING ONLY AFTER CAREFUL TESTING

U S WEST is generally supportive of the Commission's proposal to eliminate the paper-filing requirement for ARMIS reports. As the Commission notes, given the increasing reliance on electronic databases both by the Commission and LECs, the paper versions of the ARMIS reports no longer serve a meaningful purpose for Commission policy making.[7] Moreover, the transition to an electronic-only reporting system can *potentially* result in significant cost savings for all LECs that file ARMIS reports.[8]

To realize these cost savings, however, U S WEST submits that the Commission's electronic filing system must be carefully developed and tested before implementation. Each carrier's computer systems differ significantly and contain firewalls and other security measures which could affect the efficiency of an electronic filing system. Failure to consider these matters in designing and testing an electronic filing system could result in a system that is ineffective, burdensome, and costly for carriers to implement. Accordingly, U S WEST urges the Commission to consult with the industry regarding the details of its electronic filing system and to test its system carefully before implementation.

III. THE COMMISSION SHOULD MODIFY ARMIS 43-04 AND 43-01

U S WEST concurs with the Commission's judgment that data pertaining to equal access, inside wire, and payphone investment should be eliminated from the ARMIS 43-04 and 43-01 Reports. As the Commission notes, the transition to equal access is virtually complete

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7 *Id.* at ¶ 2.

8 *Id.*

and detailed equal access data are not needed.[9] Data regarding inside wire and payphone investment are also not needed because these categories are no longer regulated.[10] Thus, reporting data relating to these categories no longer serves any useful function and should be discontinued.

IV. THE COMMISSION SHOULD GRANT ADDITIONAL RELIEF TO ALL LECs

The Commission proposes to relieve "mid-size" LECs (LECs with annual operating revenues less that $7 billion), but not "large" LECs, of additional ARMIS reporting requirements related to ARMIS 43-02, 43-03, 495A and 495B Reports.[11] This proposal does nothing to relieve LECs that total nearly 90% of the industry for local exchange telecommunications from additional onerous, expensive, and unnecessary reporting requirements.

As justification for this disparate treatment, the Commission states that:

> The more detailed reporting requirements are necessary for the Commission to uphold our statutory obligations to prevent cross-subsidization and discrimination under sections 254(k), 260, 271, 272, 273, 274, 275 and 276 of the Act. The Class A level of detail specified in the Part 32 accounting rules allows us to identify potential cost misallocation beyond those revealed by the Class B system of accounts. In addition, the Class A level of detail is critical for monitoring large incumbent LECs because such carriers typically conduct a higher volume of transactions involving competitive services. . . . Moreover, the Class A level of detail is required to monitor the large incumbent LECs as competition begins to develop in local telephony markets.[12]

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9 *Id.* at ¶ 4.

10 *Id.*

11 *Id.* at ¶¶ 6-13.

12 *Id.* at ¶ 13.

This rationale is virtually identical to the reasons proffered in the *Accounting NPRM* to justify the Commission's tentative conclusion to continue to apply more stringent Class A accounting and cost allocation rules to large LECs.[13] The comments filed in that proceeding thoroughly discredited the Commission's reasoning on this point. Simply put, the Commission's reliance on size, as measured by revenue, to distinguish between LECs for purposes of accounting and cost allocation requirements is arbitrary and unwarranted. The Commission's reasoning is equally inapposite in this case.

The Commission's assertion that Class A accounting detail is required to support its obligations under Sections 254(k), 260, and 271-276 of the Communications Act is baseless.[14] In point of fact, there is no nexus between the proposed $7 billion threshold and the Commission's obligations under the specified provisions of the Communications Act. The statutory provisions cited by the Commission are all aimed at preventing cross-subsidization and discrimination in certain activities. The large LECs, however, are now subject to no-sharing price cap regulation at the federal level and in many states. Under price cap regulation, cost of service no longer bears a direct relationship to the prices charged for any given product or service. In other words, the fundamental connection between cost and price has been severed essentially eliminating the incentive and opportunity for LECs (whether large or mid-size) to cross-subsidize services. Consequently, Class A accounting detail is not necessary for the Commission to

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[13] *See 1998 Biennial Regulatory Review — Review of Accounting and Cost Allocation Requirements; United States Telephone Association Petition for Rulemaking*, CC Docket No. 98-81, ASD File No. 98-64, *Notice of Proposed Rulemaking*, FCC 98-108, ¶¶ 4-12 (rel. June 17, 1998) ("*Accounting NPRM*").

[14] *ARMIS NPRM* at ¶ 13.

protect consumers or to comply with its obligations under Sections 254(k), 260, and 271-276 of the Communications Act.

Further, the Commission's assumption that the largest incumbent LECs offer a large volume of competitive products and services, thereby creating numerous opportunities for these largest carriers to subsidize competitive services is wrong. As detailed by the United States Telephone Association ("USTA") in the *Accounting NPRM* proceeding, large incumbent LECs do not offer a large volume of competitive products when compared either to their regulated services or to the volume of competitive services offered by mid-size LECs. Data presented by USTA indicate that on average only 7% of large incumbent LECs' total costs are assigned to competitive products and services, only 6% of total operating revenue is derived from such products and services, and only 2% of the plant in service is used to provide competitive products and services.[15] These figures are comparable to the numbers calculated for mid-size LECs.[16]

The Commission's conclusion that maintaining the detailed reporting requirements for the largest incumbent LECs imposes no significant burden upon large LECs is also wrong.[17] The preparation of ARMIS reports is extraordinarily burdensome for large as well as mid-size LECs. For example, U S WEST estimates that it takes approximately 6900 hours to prepare and file all ARMIS reports. In addition to the burden of preparing and filing ARMIS reports, there is often significant and time-consuming follow-up that must be conducted with

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15 *Accounting NPRM*, CC Docket No. 98-81, USTA Comments at 8 (filed July 17, 1998).

16 *Id.*

17 *ARMIS NPRM* at ¶ 13.

Commission staff once the reports are filed.[18] In light of the above, U S WEST submits that there is no justification for distinguishing between large and mid-size LECs for purposes of streamlining ARMIS 43-02, 43-03, 495A and 495B Reports; the Commission should reduce ARMIS reporting requirements for *all* LECs.

V. THE COMMISSION SHOULD CONSOLIDATE ARMIS 43-01, 43-02, AND 43-04 REPORTS

In furtherance of the Commission's goal of streamlining its ARMIS reporting requirements, U S WEST submits that the Commission should consider more efficient groupings of data which would allow the elimination of unnecessary tables and the consolidation of certain reports. Simply put, in the current price cap regulatory environment and with the onset of competition carriers should not be required to expend the time, effort, and resources necessary to compile and file information that is no longer relevant to their regulatory status.[19]

Accordingly, U S WEST urges the Commission to consolidate ARMIS 43-01, 43-02, and 43-04 reports. The data supplied in these separate reports can easily be consolidated and presented logically in a single report.

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[18] In addition to the burden of gathering and producing the original ARMIS report data each year, significant time is spent in responding to requests for explanations and refiling the prior year's data. Frequently the requests are due to minimal differences between tables or minor discrepancies in data which have little to no financial and/or policy impact. Therefore, follow-up requests requiring refiling of ARMIS reports should be limited to those with a significant financial impact (*e.g.*, greater than $100,000 or a percent of total revenues) or an impact on a policy decision. Researching and refiling reports due to minor discrepancies is an unwarranted burden.

[19] In this regard, U S WEST would oppose consolidating ARMIS 43-03 report with other reports if the newly consolidated report would be subject to an auditing requirement. Creating new auditing requirements would run counter to the important regulatory streamlining goals of this *NPRM* and Section 11 of the Communications Act.

Further, several schedules on the ARMIS 43-02 Report require information which is a carry-over from the traditional rate-of-return regulation and is no longer significant for carriers under price cap regulation.[20] It is for this reason the Commission proposes eliminating Tables B-1, B-2, B-4, C-3, I-1, and I-2 from ARMIS 43-02 for mid-size carriers.[21] The Commission admits that elimination of these schedules will not hamper its oversight ability because it can obtain any necessary information from the underlying data and source documents on an as-needed basis. As discussed above, there is no justification for distinguishing between large and mid-size LECs. Therefore, U S WEST urges the Commission to eliminate Tables B-1, B-2, B-4, C-3, I-1, and I-2 from ARMIS 43-02 for *all* carriers.

CONCLUSION

U S WEST urges the Commission to eliminate the paper filing requirement for ARMIS reports, provided that any electronic filing system is carefully developed and tested. In addition, the Commission should reduce the amount of detail to be provided in the ARMIS 43-04

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[20] *ARMIS NPRM* at ¶ 8.

[21] *Id.*

and 43-01 Reports as proposed in the *NPRM*. The Commission should also streamline ARMIS 43-02, 43-03, 495A and 495B Reports for all LECs rather than for mid-size LECs only. Finally, the Commission should consolidate ARMIS 43-01, 43-02, and 43-04 reports.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Shelia L. Smith, hereby certify that on this 20th day of August, 1998, I caused copies of the foregoing Comments of U S WEST, Inc. to be served by hand to the following:

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